

GOVERNMENT THAT WORKS!
NEW JERSEY DEPARTMENT OF THE TREASURY
LOCAL GOVERNMENT BUDGET REVIEW
BOROUGH OF KEANSBURG BOARD OF EDUCATION

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....., 1995

**LOCAL GOVERNMENT BUDGET REVIEW
BOROUGH OF KEANSBURG BOARD OF EDUCATION
EXECUTIVE SUMMARY**

A. Utilization of School Capacity

Improved utilization of existing but unused school capacity through implementation of one or more of the options presented by the review team will generate opportunities for cost reduction or revenue enhancement ranging from \$18,000 to \$437,000.

B. Contracted Operations and Services

Modification to the exiting custodial and food service contracts as well as an adjustment in the charge for the school lunch will generate reductions in cost or improved revenues of approximately \$369,500

C. Transportation Costs and Opportunities

Restructuring the method of financing optional bus services from a totally tax supported operation to a system that is least partially supported by user fees can generate new revenue or reduced costs ranging from \$95,700 to \$138,500.

D. Personnel and Benefit Alternatives

Eliminating unwarranted payments for unused sick leave, restructuring the insurance program and eliminating direct payment to employees for altering their level of insurance coverage will save the District approximately \$453,000 per year.

E. Surplus, Cash Management and Capital Accounts

Placing District moneys in interest bearing accounts, reducing the unrestricted surplus and closing out one capital project account could generate pressure on the tax rate ranging from \$595,135 to \$1,581,107.

F. Opportunities for Shared Services

Cooperation and inter-local contracting for services such as snow removal at the schools, vehicle maintenance, preparation and processing of payrolls, consolidated custodial services and operation of the Bolger School library can lead to additional cost reductions benefiting the taxpayers of Keansburg.

**COMPARISON OF BUDGET APPROPRIATIONS, STATE AID AND LOCAL
TAX RATE WITH RECOMMENDED CHANGES IN THE BOROUGH OF
KEANSBURG BOARD OF EDUCATION BUDGET**

A. Utilization of School Capacity	\$18,000 - \$531,250
B. Contracted Operations and Services	\$369,500
C. Transportation Costs and Opportunities	\$95,700 - \$138,000
D. Personnel and Benefit Alternatives	\$453,000
E. Surplus, Cash Management and Capital Accounts	\$595,135 - \$1,581,107

TOTALS: Using minimum in each range presented above: \$1,531,335
Using maximum in each range presented above: \$3,072,857

Total Amount to be Raised for School Tax (1994-1995):	\$4,398,571
Savings as a Percent of School Tax:	34.8% - 69.86% *

Total Expenditures (1994-1995):	\$15,580,754
Savings as a Percent of Expenditures:	9.82% - 19.72%

Total State Aid (1994-1995):	\$10,196,718
Savings as a Percent of State Aid:	15.01% - 30.13%

* As a special needs district, Keansburg is limited in the amount it can lower its local school tax rate.



GOVERNMENT THAT WORKS

OPPORTUNITIES FOR CHANGE

The Report of the Keansburg Board of Education Budget Review Team

New Jerseyans deserve the best government that their tax dollars can buy. Governor Christie Whitman is committed to making State government leaner, smarter, and more responsive, by bringing a common sense approach to the way government does business. It means taxpayers should get a dollar's worth of service for every dollar they send to government, whether it goes to Trenton, their local town hall or school board.

Government on all levels must stop thinking that more money is the solution to their problems, and start examining how they spend the money they have now. The State's taxpayers cannot afford to keep sending money to their government. It is time for government to do something different.

There is no doubt that local government costs -- and the property taxes that pay for them-- have been rising steadily over the last decade. Until now, the State has never worked with towns to examine what is behind those rising costs. That is why the Local Government Budget Review Program was created by Governor Whitman and State Treasurer Brian W. Clymer. Its mission is simple: to help local governments find savings, without compromising the delivery of services to the public.

The Local Government Budget Review Program fulfills a promise Governor Whitman made in her first budget address, when she offered the State's help to local governments looking to cut costs. This innovative approach combines the expertise of professionals from the Departments of Treasury, Community Affairs and Education, with team leaders who are experienced local government managers. In effect, it gives local governments a management review and consulting service provided to them at no cost by the state.

To find those "cost drivers" in local government, the teams will review all aspects of the local government operation, looking for ways to improve efficiency and reduce costs. The teams will also document those State regulations or legislative mandates which place an unnecessary burden on local governments, and suggest which ones should be modified or eliminated. Finally, the teams will note where local governments are utilizing "Best Practices" -- innovative ideas that deserve recognition and that other municipalities may want to emulate.

This intensive review and dialogue between local officials and the review team is designed to produce significant insight into what factors are driving the costs of local governments, and provide the necessary tools to bring meaningful property tax relief to the State.

INTRODUCTION

The review conducted on behalf of the Board of Education was the third project undertaken in the community by a review team from the Local Government Budget Review Program of the New Jersey Treasury Department. Keansburg is the first community to have all of its primary local government agencies reviewed. In the introduction to the report submitted to the Borough the review team wrote:

As a result of the three part effort, the elected and appointed leaders as well as every public employee and interested citizen have the opportunity to work cooperatively to implement changes that will be beneficial to each agency as well as to every rate payer and taxpayer. Like many other communities in New Jersey, Keansburg cannot not rely on new development or significant commercial growth to carry the growing cost of government. Indeed, the future revitalization of the community is directly dependent on the ability of the local governing bodies to improve services while reducing the cost of government.

A quality public education is often a key to the economic revitalization and growth of a community as well as the enhancement in the sense of community pride. Keansburg is recognized as one of the more successful, if not the most successful of the “special needs districts.” Yet, the staff and leadership of the District appear to be frustrated by the criticisms expressed by the public; while at the same time the citizens are frustrated by the increasing tax burden generated by the District.

These frustrations highlight the need to maximize the value of every dollar spent on the education of the youth of Keansburg. It also points out the need to implement plans targeted at removing Keansburg from the bittersweet enigma of being a special needs district. One citizen candidly stated “I’ll be proud of the district when they are the best of the best - not the best of the rest. We may need that special needs district money, but I’m tired of the label and the fact that the District uses it as an excuse for why they can’t do more. They need to get real down there.”

Whether the views expressed by this stockholder are either common or accurate is not as important as the fact that substantive change must be made if the District is to continue contributing to the growth and development of the youth of Keansburg. The review process consisted of three primary components -- observation of the work procedures; interviews and discussion with officials and staff, and, analysis of reports, documents and records such as the collective bargaining agreements, financial statements, and insurance contracts. The on-site observation work occurred at intermittent periods. This component of the process overlapped with the utility authority and municipal reviews.

During the review of the school district special care was taken to prevent interference with the conduct of any class or the decision making process related to curriculum content and

instructional methods. The primary focus was on the “business of education.” The administrative functions that were reviewed included the cost of personnel, collective bargaining agreements, utilization of capacity, fixed assets and facilities, service contracts, debt service, etc.

In general the review team found the staff to be cooperative although resistant to the view that constructive change can lead to a better product at a reduced cost. Quite possibly this resistance is exemplified and encapsulated in the former superintendent’s view that the elected school board should be eliminated. Where possible the fiscal impact of a recommendation is provided. Not all of these “fiscal impact statements” will have a direct impact on the budget or the tax rate. The primary purpose of providing this measure is to give the District an indication of the magnitude or scope of an issue. We do not suggest all the proposed changes can be made at once, or even in a single year. When considered together, the recommendations identify ample opportunity for constructive change and provide an excellent working paper for discussion. Observations and recommendations are presented in the following categories.

- * Utilization of school capacity
- * Contracted operations and services
- * Transportation
- * Personnel, contracts and benefits
- * Surplus, cash management and capital expenditures
- * Opportunities for shared services

UTILIZATION OF SCHOOL CAPACITY

There may be nothing more disconcerting than to experience overcrowding in an educational setting. Based on the current and projected enrollments there is little chance that an overcrowding problem will develop in the Keansburg School District. To the contrary, a strong argument can be made that under-utilization of educational space is a major problem in the District.

Based on reports submitted by the District to the New Jersey Department of Education, the high school has a maximum capacity of 848 students. After adjustments are made to allow for the practical realities of scheduling, the high school has an effective capacity ranging from 636 to 703 students. The 1994-1995 enrollment for grades nine through twelve is approximately 450 students or 65% to 70% of the capacity. The highest high school enrollment projected by the District is 470 students in 1997-1998. During this school year 69% to 74% of the capacity will be used. Given the very limited opportunity for new development in Keansburg, there is no reason to believe a significant change will occur that will radically alter the number of students or the educational space needed by the District. Keansburg now has and will continue to have the opportunity to educate an additional 100 to 150 students on the high school campus. Accordingly **it is recommended (# 1) that the District implement one or more of the following:**

1.A. Modify selected classrooms in the high school to permit their use for special education thereby giving the District the opportunity reduce the cost of out-of-district special education. The average annual cost to transport and enroll 17 special education students attending public schools outside the District is approximately \$15,850 per student while the average annual cost to transport and enroll 33 students in private schools is approximately \$29,500 per year. The cost to educate these 50 students is approximately \$1,272,300 per year. While a portion of the cost of special education is borne by the State of New Jersey, the fact remains there is an opportunity to reduce the burden on the taxpayer by educating these children in Keansburg.

The review team acknowledges that the nature and type of impairment or handicap has a significant impact on the placement and grouping of special education students. If only one class of ten students currently attending other public schools could be relocated in the District the potential savings is at least \$80,000.

1.B. Related to item "A" above, upon creation of additional special education classroom space, actively recruit special education students from other communities in the Bayshore and Two Rivers area. This may help other districts reduce their tuition and transportation costs; give Keansburg the opportunity to insure special education classes have an optimal number of students, and provide Keansburg with an opportunity for additional tuition income. The review team learned that Keansburg had previously offered to receive special education from other districts but according to the business staff it "became an inconvenience" so it was stopped. In an era of tight budgets, tax pressure

and the growing demand for decisions to be based on sound budgetary and business practices, inconvenience is an inappropriate criterion. If only five students were hosted by the Keansburg School District at an annual tuition rate of \$8,500 the additional income would be \$42,500.

1.C. Compete to have high school students living in the Bayshore area attend the Keansburg High School. Union Beach sends all of its secondary students to Keyport or Red Bank Regional High School. If 125 of these students attended Keansburg High School at a tuition rate of \$8,500, which is less than the amount currently being charged Union Beach, and half of that income was offset by additional expenses resulting from their attendance the net revenue to the District would be approximately \$531,250.

NJSA 18A:38-8 states “The board of education of any school district having the necessary accommodations may receive or may be required to receive by order of the state board, pupils from another district not having sufficient accommodations, at rates of tuition fixed as in this article provided.” Yet before Union Beach or any other sending district could contract with Keansburg to educate its students it would first have to obtain permission by the Commissioner of Education to modify or nullify the sending-receiving relationship in which it is currently participating. This permission can only be granted upon review of a feasibility study outlining the impact(s) of the proposed change (NJSA18A:38-13). It may be in the best interest of the Keansburg District to offer to underwrite the cost of such a feasibility study and it may be in their best interest to promote a gradual transition so as to minimize the sudden impact on the affected districts.

1.D. If it is not possible to attract out-of-district students to the High School then contract with another district for the education of all secondary students. If the total cost of staffing and operating the Keansburg High School exceeds the cost of tuition and transportation for the average high school enrollment, then it would be more cost effective to the taxpayer to contract with another district to educate Keansburg’s high school students. The overall cost per pupil in the District is approaching \$9,000. The cost to education an elementary student and the cost to education a secondary student may be quite different given the differences in faculty, extra-curricular activities, etc. Analytical review and discussion of this option will have the impact of generating a discussion of the price that the Keansburg taxpayer will agree to pay to maintain the autonomy of a local high school.

Establishing a sending relationship with another district would not create a transportation burden or significantly dislocate the Keansburg students. The total square area of the six Bayshore towns (Highlands, Atlantic Highlands, Keyport, Union Beach, Hazlet, and Keansburg) is approximately twelve square miles which is smaller than the area served by either Middletown North or Middletown South High School. During the past year the Henry Hudson Regional High School District sought to address the under-utilization of its capacity. Even though this school is located at the eastern end of the Bayshore region, if the Keansburg high school students were transported there it would be a shorter distance

than the Union Beach high school students travel to attend Red Bank Regional High School.

1.E. Lease vacant educational space to districts in the area experiencing or anticipating problems with overcrowding. Based on published newspaper accounts at least two districts in the local area have identified the need for additional educational space. Unless a long term, permanent need is identified these districts would save money by leasing space from Keansburg rather than incurring the costs of architectural development, construction and debt financing. There may also be cases where construction must occur but space in Keansburg can be leased temporarily. In either case, the taxpayers in Keansburg and the other affected communities would benefit.

1.F. Relocate the central administration offices to the High School campus. The District presently leases office space in the community. The loss of a tenant may cause a temporary hardship for one owner, but it will help to ease the tax burden on the entire community. Relocating the offices to the High School campus would save the District approximately \$18,000 per year in lease payments.

1.G. Lease unused space to the Borough. The existing offices of the municipality are beyond repair or renovation. As the municipality considers its options regarding the relocation of its offices it may be cost effective to lease space to the Borough.

1.H. Review the capacity and utilization of the two elementary schools and the Bolger Middle School. Two of the three facilities are operating significantly below their effective capacity. It could be in the best interest of the taxpayers to reduce the number of schools by eliminating the oldest facility even if the remaining facility had to be expanded.

1.I. Related to item ,“G” above, join with the municipal government and the utility authority in the development and implementation of a public facilities plan. As stated in the report provided to the governing body of the Borough of Keansburg, an unusually large amount of property is exempt from taxation. A coordinated plan for the use of publicly owned land would permit the municipality to return one or more tracts to the tax roll, thereby spreading the tax burden over a larger number of taxpayers.

As the community and the elected leadership implement one or more of the recommendations outlined above, consideration should also be given to addressing the need to have five public high schools in the Bayshore area (Middletown North, Keyport, Raritan, Henry Hudson and Keansburg.) The combined enrollment warrants the operation of a maximum of three, and preferably two comprehensive, full service high schools. The ability to offer a wide variety of classes is related to the size of the faculty which in turn is linked to the total enrollment. While bigger is not always better, economies of scale do have an impact on the number of educational options and opportunities. The elimination of programs at the Keansburg High School over the last five years is testimony to this phenomenon. The best interest of the current elementary students may be met through the

creation of a regional secondary district to operate and maintain the “Bayshore East” and “Bayshore West” high schools. A number of successful regional high school districts do exist within Monmouth County.

OPPORTUNITIES FOR COST REDUCTION OR REVENUE ENHANCEMENT

Return special education students to Keansburg:	\$80,000
Host five special education students	\$40,000
Host high school students	\$531,250
Lease vacant space to other districts	To be determined
Establish sending relationship for	
High School students	To be determined
Relocate central administration offices	\$18,000
Review capacity and utilization of middle	
school and elementary schools	To be determined
Joint public facilities plan	To be determined

Range of identified cost saving and revenue enhancement opportunities: \$18,000 to \$531,250.

CONTRACTED OPERATIONS AND SERVICES

The Keansburg School District was one of the first to recognize the opportunity to reduce costs through the use of contracted services. Given the growing market for contracted services and the resulting competition, Keansburg now has the opportunity to generate even more savings through implementation of changes in its custodial and food services contracts.

Custodial Services Contract

Under the current agreement Keansburg pays approximately \$3.88 per square foot for custodial services and light maintenance or repair work. Districts in the Ocean-Monmouth County area have been able to execute full service contracts for a little as \$1.82 per square foot. If Keansburg was able to generate bids at a price near the midpoint of this range of costs, i.e., \$2.85 per square foot, the savings to the District would be approximately \$296,000. For every ten cent reduction in the cost per square foot the District will save an additional \$28,775. Accordingly, **it is recommended (#2) that the District rebid the contract for custodial services at its earliest opportunity.**

During the review of the District's budget and purchasing procedures it was noted that approximately \$89,160 was spent for supplies, \$93,339 for maintenance and \$48,296 for repairs during the 1994-1995 year. Many of these items appear to be the responsibility of the contractor. For example, \$16,707 was spent for "custodial supplies" purchased from Scoles; \$8,025 was purchased from Collins Brothers for "supplies;" \$7,192 in "supplies" was purchased from W.W. Grainger, and, at least two vendors were paid for "snow removal." Accordingly, **it is recommended (#3) that the District ensure it is not purchasing items for which they are not responsible under the current contract.** We believe that the supply and maintenance expenditures can be reduced by 33 percent the District which will save approximately \$62,000.

Food Services Contract

The fund balance in the food services enterprise fund has been steadily declining. Given the present rate of decline the Board will face a deficit in this fund which would require a budget allocation within the next three years. This is a clear indication that the annual operating expenses are greater than the annual operating revenues. Simply put, the food service system is operating at a loss every year. The full charge for an elementary school and high school meal was the lowest found to date by the local budget review teams. In addition, the \$1.00 charge to faculty and staff was also the lowest found by the review teams. Accordingly, **it is recommended (# 4) that the following changes be implemented:**

4.A. Place all revenue in an interest bearing account. During 1994 the average daily balance was \$62,650 yet no interest income was earned. If the interest rate had averaged

2.5% the fund would have earned at least \$1,500 per year. Given the level of activity in this type of account it would not be unreasonable to project an interest rate significantly higher than 2.5% per year.

4.B. Raise the charge for the purchase of the lunch meal. An increase of \$.20 in the full cost of the high school lunch meal would generate an additional \$10,000 per year. It is important to remember that an enterprise fund is separate from the tax based general fund because it is expected that revenues will exceed costs. As such it is more appropriate to raise the user fee for those who purchase their lunch than rely on an allocation from the general fund supported by all of the taxpayers.

4.C. Move to a full service food services contract. The District currently reimburses the contractor on a weekly basis for expenses in addition to paying the agreed upon management fee. The competitive nature of the food services industry is such that more cost effective options are now available in the marketplace. The “arms length” nature of a full service contract makes it easier for a District to evaluate bids and plan expenses accordingly.

OPPORTUNITIES FOR COST REDUCTION OR REVENUE ENHANCEMENT

Rebid custodial contract	\$296,000
Reduce supply, maintenance and repair expenses (due to custodial contract)	62,000
Place food service revenue in an interest bearing account	1,500
Generate additional lunch meal revenue	10,000
Rebid food services contract	To be determined

Total identified opportunity: \$369,500

TRANSPORTATION COSTS AND OPTIONS

Based upon existing statutes and regulations the Keansburg Board of Education has no requirement to provide transportation except to special education students. Because Keansburg transports its public school students within the 1.1 square mile town, it must also provide transportation or a payment in lieu of transportation to approximately 63 students attending non-public schools. During the 1993-1994 school year the total cost to the taxpayer was approximately \$343,500 or approximately ten cents of the school tax levy.

Prior to the 1994-1995 school year the Board made the decision to eliminate optional busing; however, as a result of opposition expressed to the Board, the program was reinstated. This scenario, which is becoming quite common throughout New Jersey, reflects one of the major dilemmas facing the executive staff and elected board of a school district. On one hand every effort must be made to reduce the tax burden, but on the other hand demand for services such as busing are unrelenting.

Legislation has been introduced which will give greater flexibility to a local board of education to address this paradox. The general issue of transportation services appears to be in the process of being redefined in terms of safety and support rather than "courtesy." In Keansburg a number of individuals indicated that parents must leave their home to go to work before the children leave for school. Carpooling and cooperation between neighbors notwithstanding, in the eyes of some parents the bus becomes a mechanism to ensure the child's arrival at the school.

If this scenario is indicative of the reasons why there is the demand for busing in a very small town, then it would be appropriate for those who use them to pay at least a portion, if not the total cost of operation. The extent to which the users pay for the cost of transportation presumably will be a policy decision to be made by the local board of education. If a pass for optional bus service were to cost \$30.00 per month the District would receive approximately \$64,200 in revenue from the 214 students who used the busses during the 1994-1995 school year. If the fee was set at \$50.00 per month the total revenue would be approximately \$107,000. Conversely, if the existence of a fee structure resulted in a reduction in the demand for bus service, presumably the District could eliminate buses or routes thereby saving money.

The transition to a user based fee system may also eliminate the necessity of taxpayer support for transporting students to non-public schools outside the District. At an average cost of \$500 per student, this would have saved the District approximately \$31,500 in the 1994-1995 school year.

In anticipation of modification in the statutory and administrative regulations pertaining to the provision and payment of transportation services, **it is recommended (#5) that the executive staff and the Keansburg Board of Education prepare a draft policy**

statement and implementation plan to change the method of financing transportation to a fee based system.

OPPORTUNITIES FOR COST REDUCTION OR REVENUE ENHANCEMENT

User fees for transportation	\$64,200 - \$107,000
Eliminate cost to transport students to non-public schools	<u>31,500</u>
TOTAL	\$95,700 - \$138,500

PERSONNEL AND BENEFIT ALTERNATIVES

Payments for Unused Sick Leave

The taxpayers of Keansburg were recently faced with the incredible burden of paying in excess of \$300,000 to the former superintendent for unused sick leave. Local contracts and employment provisions notwithstanding, there is nothing in the Fair Labor Standards Act, Wage and Hour Opinion Letters or case law that stipulates an individual is entitled to compensation for unused sick leave.

Policies pertaining to the use and accrual of sick leave have changed from statements describing the benefit as a “term” insurance policy ensuring receipt a paycheck during an illness to statements describing an additional form of deferred compensation. Unlimited collection of sick leave and payments for unused days are leading to the excesses such as the one described above.

To suggest that employees must be paid for unused sick leave to deter misuse of the benefit is to suggest employees will be dishonest in their use of the benefit. A much more preferable option would be to aggressively discipline those who betray the public trust by abusing the terms and conditions for appropriate sick leave. At the same time, the long and faithful public servant is entitled to a reasonable reward at the end of their career. Accordingly, it is recommended that **(# 6) in recognition of the long and faithful service of retiring employees they be permitted to be paid for up to fifty percent of their unused sick leave up to a maximum payment of \$15,000.** Had this policy been in place when the former superintendent retired there would have been an excellent opportunity to reduce the school tax rate significantly.

The review team recognizes that Article X of the collective bargaining agreement will have to be modified before the proposed policy can be implemented. Notwithstanding the egregious payment to the former Superintendent, it would be in the best interest of the members of the collective bargaining unit, the board and the taxpayers to reach an accord on this matter. Excessive payments in Keansburg and in other communities throughout the State could lead to a legislative mandate limiting sick leave payments made by school districts and municipalities. A strong precedent exists for such a limitation. Employees of the State of New Jersey are limited to \$15,000 for unused sick leave. If legislation was adopted the terms and conditions outlined in the statute would supersede any local collective bargaining agreement. While we generally would not support legislative initiatives which intrude on the discretionary powers of a local government, it would appear that local elected officials have been so liberal in the granting of benefits and privileges that unilateral withdrawal of those benefits may be appropriate.

Provision of Health Benefits

It is a credit to the members of the collective bargaining unit and the Board that the current contract provides health insurance benefits to the employee alone during the first three years of employment. Family coverage does not begin until that period has expired. This is particularly fortunate when a comparison to the borough's cost of health insurance is made. The Board pays approximately \$2,785 more per employee for family coverage than the Borough pays for a family indemnity plan. The difference in premiums increases to over \$3,100 if the Borough's HMO - family premium is compared to the District's cost. The District does not have an HMO option available. The disparity between the dental plan premiums is approximately \$360 per family. Had the District contracted for coverage yielding premiums equal to that paid by the Borough, the District would have saved approximately \$332,500. Accordingly, **it is recommended (# 7) that the District pursue the following:**

7.A. Revise the existing insurance program to include providing an HMO option for each level of coverage;

7.B. Upon creation of the HMO option limit the District's contribution to the cost of a family HMO plan. Employees selecting a more expensive type of insurance can then pay the additional premium through a payroll deduction. The process of payroll deductions is in use now for employees with less than three years of service.

7.C. Pursue a cooperative insurance program with the Borough and the Utility Authority and/or other area school districts. The review team found that there are overlapping and redundant insurance costs between the three public agencies in Keansburg. There is simply no reason for two public agencies in one single community to pay to cover the same family twice.

In addition to the opportunity to generate savings through amendments to the insurance program and the related premiums, the District can generate further significant savings by stopping the practice of paying employees for insurance coverage they do not receive! Article XV.E states:

The Board will pay an employee fifty percent (50%) of the unspent premiums when employees switch from Family or Husband and Wife coverage under Paragraph A and/or B to either single or no coverage. If any other combination change effects a monetary premium savings, such savings will also be split 50% - 50% between the Board and the employee. . . . Employees may retract their waiver and re-enter or broaden their insurance coverage only at periods of re-entry permitted by the insurance carrier. Payments under this program shall be made at the end of the school year.

During the last fiscal year the District made payments to thirty six employees totaling \$121,142.57. It appears that in at least two cases an employee receives a payment from

the District for reducing their coverage while at the same time receiving comprehensive insurance coverage at the taxpayers expense from one of the other public agencies in Keansburg.

The review team recognizes the value of incentives and the realities of negotiated “trade-offs” as an outcome of the collective bargaining process. As such it may have been necessary to make these payments for a period of time to facilitate modification in the norms associated with insurance coverage. It is recommended that (# 8) the District work to establish a date after which this incentive will no longer be paid without permitting or causing members of the collective bargaining group to resume unnecessary and unwarranted insurance coverage at the taxpayers expense.

As stated in the introduction, it is imperative for the District and all associated parties to work together to reduce the cost of government in Keansburg and to enhance the opportunity for the long term stability and success of the community. The levels of compensation already received by the members of the collective bargaining unit do not appear to be below that of their colleagues working in other school districts, making it unnecessary for the Board to agree to other forms of compensation.

OPPORTUNITIES FOR COST REDUCTION

Modify existing insurance program	\$332,500
Eliminate bonus for modification of insurance coverage	<u>121,140</u>
TOTAL	\$453,640

SURPLUS, CASH MANAGEMENT AND CAPITAL ACCOUNTS

Management of Bank Accounts

Five of the ten bank accounts analyzed by the review team did not earn any interest income. Excluding the Cafeteria Account which is mentioned in the “Contracted Operations and Services” section of this report, the District has the opportunity to increase its interest income revenue by approximately \$33,150.

ACCOUNT BALANCES AND INTEREST EARNINGS

<u>Account Name</u>	<u>Average Daily Bal.</u>	<u>Average Rate</u>	<u>Interest Income</u>	<u>Potential Rate</u>	<u>Net Interest Gain</u>
Cap. Projects	330,443	1.49%	\$4,934	4.1	\$ 8,614
Gen. Fund	1,682,880	1.48	24,910	2.5	17,162
Invest. Savings	65,742	2.29	1,504	4.1	1,191
Payroll Acct.	72,354	-0-	-0-	2.1	1,519
Payroll Agency	96,642	-0-	-0-	3.3	3,189
Bolger	14,411	2.99	431	4.1	160
Frances	4,352	-0-	-0-	4.1	178
Keansburg Std.	26,179	.15	39	4.1	1,034
Pt. Monmouth	2,540	-0-	-0-	4.1	104
TOTAL					\$33,151

It did not appear that there were any written agreements with the depositories outlining the costs of services, interest rates, special charges, etc. **It is recommended (#9) the Board of Education direct the business staff to pursue the following:**

9.A Competitively solicit proposals for all banking services. Maintaining a relationship with a public agency is generally considered to be advantageous by most banks for a number of reasons including the significant average daily balances. In a highly competitive industry there is no reason that a public agency should not take advantage of the marketplace when determining the banks to be appointed as the official depository.

9.B. Combine the payroll account and the payroll agency account. The highly predictable activity and the ability to maintain subaccount balances through computerization no longer requires separate accounts.

9.C. Establish the consolidated payroll account as a zero balance account. This account serves as a clearinghouse for tax payments, payroll checks, etc. As such it is possible to establish a direct “draw down” from the general operating account or the cafeteria account as necessary. The average low balance in the payroll and payroll agency accounts were \$10,725 and \$59,342. It may be possible to return this money to the

general account fund balance since a zero balance account does not require a minimum balance.

9.D. Directly related to the payroll process, **charge all payroll preparation and processing costs against the general account.** This is a standard cost of business that can be appropriately charged to the basic operating account(s).

The Fund Balance and Available Surplus

Between July 1990 and July 1994 the fund balance or surplus grew by 139 percent. This rate of growth exceeded the rate of growth in the amount of state aid (85%) and even the rate of growth in the school tax rate (51%). Simply put, as taxpayers were paying progressively larger tax bills each year, more of their money was not being put to use. A March, 1995 document published by the New Jersey Commissioner of Education titled "Report on School Districts' Budget Surpluses" stated that 173 districts had a surplus in excess of the statutory limit of 7.5%. The Keansburg School District was among those in excess of the legal limit. The Commissioner's report listed the "undesignated surplus" in Keansburg to be 9.4% of the general fund budget. While 7.5% is the legal limit, the recommended amount of surplus is 3% of the general fund budget.

Further compounding this problem was the fact that "536 of the state's 606 school districts underestimated their surplus." In Keansburg the year end surplus was underestimated by \$930,476 which was 45 percent below the amount actually reported in the audit. Given that the estimated surplus is prepared late in this fiscal year, we believe that this understated surplus was a method to avoid the 7.5% cap established by law and to limit the amount of surplus that can be dedicated as an operating revenue in the budget for the upcoming year.

The growth of the surplus led the team to review the "flow" of revenues over the period studied. While surplus was budgeted as an operating revenue every year, in only one year was it actually needed or used to ensure revenues exceeded expenditures. In other words, the total of all other revenues met or exceeded the total cost of operation.

Based on the analysis of the unrestricted surplus as of June 30, 1994, the District had a statutory obligation to reduce the surplus by at least 2%. This would generate an opportunity to reduce the tax burden by approximately \$416,300. If the District chose to reduce the surplus to the recommended level of 3% of the general fund budget the tax burden could be reduced by as much as \$1,402,272. As enticing as this might be, caution should be taken to avoid the pendulum effect of an unusually large tax decrease that is followed by a large tax increase the following year.

It is recommended that (# 10.A) the District reduce its unrestricted surplus to an amount clearly within the statutory limit. It is further recommended (#10.B) that the unrestricted surplus be reduced to a point that will provide immediate tax relief to

the taxpayers of Keansburg and ensure little to no increase in taxes over the next two to three years.

Capital Expenditures

In addition to generating tax relief through proper management of the unrestricted surplus of the general fund, it may also be possible to make one significant adjustment in the capital fund. Exhibit D-2 of the audit for the year ending June 30, 1994 showed an unexpended balance of \$145,684 from a 15 million dollar allocation for the “construction of an elementary school and renovations to existing school.” If the scheduled work has been completed and all contractors have been paid in full then it would be possible for the Board to close this project. The bond covenants established when this money was borrowed may require that any unexpended balance be assigned to the debt service fund. If this restriction does not exist the funds may be allocated to the unrestricted surplus of the general fund. In either case, there may be the opportunity reduce the burden on the taxpayer by \$146,684. Accordingly, **it is recommended (# 11) that the Board instruct the Business Administrator to close this account if all work has been completed and all obligations for payment have been fulfilled.**

OPPORTUNITIES FOR COST REDUCTION OR ENHANCED REVENUE

Additional interest income	\$33,151
Adjust unrestricted surplus	416,300 - 1,402,272
Close capital account (if possible)	<u>145,684</u>
TOTAL	\$595,135 - \$1,581,107

OPPORTUNITIES FOR SHARED SERVICES

Recommendations previously presented in the report identified opportunities for shared services in the area of insurance contracting and utilization of unused space in the schools. In addition to these the review team **recommends (# 12) that the District pursue the following:**

12.A. **Consolidated snow plowing.** The contract for custodial services indicates the vendor is responsible for this service. When the District rebids the contract for custodial services it may want to exclude this task. It should be possible to enter into a cooperative agreement with the municipality to provide this service. Even if the Borough felt obligated to charge the District for the service as a result of the overtime costs associated with most snow removal work it may still be beneficial to the District and to the taxpayers.

12.B. **Vehicle maintenance.** The school district owns and operates a small number of light vehicles. It should be possible for the Borough's public works department to do the preventive maintenance and repair work on these vehicles.

12.C. **Consolidated custodial work.** The largest contractor for custodial services will always be the school district. Based on the fact that a cost per square foot can be computed it would be reasonable to include the Borough Hall, Police Department and the utility office in the scope of services to be provided by the custodial vendor.

12.D. **Centralized payroll and benefits office.** Keansburg has a relatively unique opportunity in that the boundaries of the school district, municipality and utility authority are the same. Each agency has the identical pool or universe of stockholders. It would be in the best interest of these stockholders to operate one payroll and benefits management office. Even if the preparation and processing of the overall payroll was contracted the opportunity for lower units costs through economies of scale should exist.

12.E. **Cooperative library operation.** The library facilities in the Bolger School are extensive and they are accessible to the public after the remainder of the Bolger School has been closed. For a limited period of time the Borough and the District worked cooperatively to keep this facility open after school hours for use by the residents. Apparently this venture ended over an impasse on the cost of its operation. Had the cooperative venture between the Borough and the district continued it would have been highlighted as a best practice of both agencies. The rates of compensation for school certified librarians are generally higher than the rates of compensation for the trained professional librarians working in other public facilities. During the hours in which the library is open as a community facility it is not necessary to utilize or pay a certified school librarian. If local arrangements cannot be made one possible alternative would be to pursue a cooperative contract with an established library services organization such as the Monmouth County Library System. In essence it may be possible to operate the library as a branch of a larger system at a very reasonable cost to the taxpayers.

LOCAL GOVERNMENT BUDGET REVIEW

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